

VZCZCXRO1584  
PP RUEHFK RUEHKSO RUEHNAG RUEHNH  
DE RUEHKO #3809/01 1880914  
ZNR UUUUU ZZH  
P 070914Z JUL 06  
FM AMEMBASSY TOKYO  
TO RUEHC/SECSTATE WASHDC PRIORITY 4099  
INFO RUEKJCS/SECDEF WASHDC PRIORITY  
RHEHAAA/THE WHITE HOUSE WASHINGTON DC PRIORITY  
RUEAWJA/USDOJ WASHDC PRIORITY  
RULSDMK/USDOT WASHDC PRIORITY  
RUCPDOG/USDOC WASHDC PRIORITY  
RUEAIIA/CIA WASHDC PRIORITY  
RUEKJCS/JOINT STAFF WASHDC//J5//  
RHHMUNA/HQ USPACOM HONOLULU HI  
RHHMHBA/COMPACFLT PEARL HARBOR HI  
RHMFIUU/HQ PACAF HICKAM AFB HI//CC/PA//  
RHMFIUU/COMUSJAPAN YOKOTA AB JA//J5/JO21//  
RUYNAAAC/COMNAVFORJAPAN YOKOSUKA JA  
RUAYJAA/COMPATWING ONE KAMI SEYA JA  
RUEHNH/AMCONSUL NAHA 9687  
RUEHFK/AMCONSUL FUKUOKA 7084  
RUEHOK/AMCONSUL OSAKA KOBE 0383  
RUEHNAG/AMCONSUL NAGOYA 6971  
RUEHKSO/AMCONSUL SAPPORO 8231  
RUEHBJ/AMEMBASSY BEIJING 3157  
RUEHUL/AMEMBASSY SEOUL 9305  
RUCNDT/USMISSION USUN NEW YORK 1050

UNCLAS SECTION 01 OF 08 TOKYO 003809

SIPDIS

SIPDIS

DEPT FOR E, P, EB, EAP/J, EAP/P, EAP/PD, PA  
WHITE HOUSE/NSC/NEC; JUSTICE FOR STU CHEMTOB IN ANTI-TRUST DIVISION;  
TREASURY/OASIA/IMI/JAPAN; DEPT PASS USTR/PUBLIC AFFAIRS OFFICE;  
SECDEF FOR JCS-J-5/JAPAN,  
DASD/ISA/EAPR/JAPAN; DEPT PASS ELECTRONICALLY TO USDA  
FAS/ITP FOR SCHROETER; PACOM HONOLULU FOR PUBLIC DIPLOMACY ADVISOR;  
CINCPAC FLT/PA/ COMNAVFORJAPAN/PA.

E.O. 12958: N/A

TAGS: [OIIP](#) [KMDR](#) [KPAO](#) [PGOV](#) [PINR](#) [ECON](#) [ELAB](#) [JA](#)  
SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 07/07/06

Part-2

INDEX:

(6) Study of structural reform: Japan implements many US-proposed  
deregulatory measures; US now takes cooperative stance, stops  
high-handed approach

(7) GSDF mission to Iraq: Though unshakable Japan-US alliance  
established, it has yet to gain trust of the international  
community

(8) Risky challenge-North Korea's missile firing (Part1): Last  
resort to deal with US

(9) Iran's nuclear program, China's offensive make it difficult for  
Japan to secure energy resources

ARTICLES:

(6) Study of structural reform: Japan implements many US-proposed  
deregulatory measures; US now takes cooperative stance, stops  
high-handed approach

ASAHI (Page 11) (Excerpts)  
July 7, 2006

In their meeting in Washington on June 29, President Bush and Prime  
Minister Koizumi issued a joint document that stressed: "The  
US-Japan relationship stands as one of the most accomplished  
bilateral relationships in history," playing up their close personal  
ties established over the past five years.

Another document released at the summit was the "Fifth Report on the  
US-Japan Enhanced Initiative on Deregulation and Competition

Policy," which lists achievements made through the Japan-US deregulation talks, including postal privatization, reform of special corporations, reform of the legal system, and introduction of the New Corporation Law. The report lists a number of deregulatory measures Tokyo implemented in accordance with Washington's requests.

#### Japan-US Structural Impediments Initiative

Starting from the 1960s through the 1980s, Japan and the US sparred over Japan's exports of textile and steel products, autos, semiconductors, and the like. In a bid to resolve the disputes, Japan took steps to limit exports voluntarily. Despite such efforts, the trade imbalance between the US and Japan did not shrink. The US Department of the Treasury proposed to the Finance Ministry in 1989 that they "hold talks on structural problems, in order to open up the Japanese market." The two countries launched the Japan-US Structural Impediments Initiative (SII).

More than 240 requests came from the US, including a review of the Large-Scale Retail Stores Law. Former International Trade and Industry Ministry Deputy Vice Minister Noboru Hatakeyama, who engaged in those negotiations with the US, grumbled: "Intervention in domestic affairs was made a common practice." SII was transformed into the Initiative on Deregulation and Competition Policy under the Bush administration.

Detailed, specific proposals

Both Japan and the US annually present recommendations regarding the other side's regulatory reform. But the US presents a larger number of proposals, and its proposals are more detailed and specific than

TOKYO 00003809 002 OF 008

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 07/07/06

Part-2

INDEX:

(6) Study of structural reform: Japan implements many US-proposed deregulatory measures; US now takes cooperative stance, stops high-handed approach

Japan's. The US reports called on Japan to privatize postal services, accelerate the disposal of non-performing bank loans, and strengthen the role of the Fair Trade Commission. These measures were also included in the Koizumi structural reform plans.

Although the US demanded Japan set an import goal or a target share for each product In the 1990s, it has no longer resorts to such a high-handed approach.

Takeo Harada, former Foreign Ministry official and the author of the book titled: America, which deceives Japan, and Japan, which is deceived by America, stated: "Since persons who want Japan to pursue an American-style market economy, including Internal Affairs and Communications Minister Heizo Takenaka and Council on Promotion of Regulatory Reform and Market Liberalization Chairman Yoshihiko Miyauchi, joined the nation's policymaking team, persistent demands from the US have become unnecessary."

Takenaka, who has played a role like "the control tower for economic policy" in the Koizumi administration, has extensive personnel ties in the US established during his days as a student at Harvard University.

In the fall 2002, when Takenaka as financial services minister came under heavy fire from the Liberal Democratic Party for his attempt to implement drastic measures to dispose of nonperforming loans, US Council on Economic Advisors Chairman Glenn Hubbard offered a helping hand to him by saying, "The US supports Mr. Takenaka." Hubbard has been his friend since Takenaka was studying at Harvard University.

When work to design a system to privatize postal services was underway in the government, senior Postal Privatization Office members frequently met officials from the US Treasury Department and the US Trade Representatives (USTR), envoys at the US embassy, as well as US business executives.

Denounced by opposition party members saying: "The postal-privatization plan is totally in accordance with requests from the US, Takenaka argued back: "That is a sort of fairy- tale criticism."

The Japanese government has accepted a number of proposals from the US since SII was launched. Even so, it is not correct to say that Japan simply yielded to US pressure. The US also skillfully reflected consumers' voices in many of its recommendations.

One of them is the review of the Large-Scale Retail Stores Law. The US government called on Japan to scrap the law, defining it as "a typical barrier to market entry." Behind this call was the advancement into the Japanese market of Toys "R" Us, a leading toy store chain in the US. In addition, Japanese consumers also desired to see large-scale retail stores that offer a variety of goods at low prices opened in their communities. The law was phased out during the 1992-2000 period.

Revival of store-opening regulations

TOKYO 00003809 003 OF 008

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 07/07/06  
Part-2

INDEX:

(6) Study of structural reform: Japan implements many US-proposed deregulatory measures; US now takes cooperative stance, stops high-handed approach

Store-opening regulations will soon revive in a different form. Taking it seriously that downtown shopping streets are dying as a result of large stores moved to the suburbs, the government enacted in the recent regular Diet session a law amending the said law to apply restrictions again on opening suburban large stores.

Heated discussions were conducted on the revised law in the government. Former Vice Minister of International Financial Affairs Makoto Utsumi, who served as co-chairman at the SII, commented: "All of the assertions by the US were not necessarily based on global standards."

(7) GSDF mission to Iraq: Though unshakable Japan-US alliance established, it has yet to gain trust of the international community

MAINICHI (Page 6) (Excerpts)  
June 29, 2006

Many say that US President Bush and Prime Minister Junichiro Koizumi are close friends, but a certain Foreign Ministry official involved in Japan - US relations likened them to "brothers in arms." The prime minister shared the US president's unflinching, tough stance in the war on terror, and he decided to dispatch Self-Defense Forces personnel to Iraq, a country at war. It was the first dispatch of SDF troops to the front line of Iraq. Not only does Prime Minister Koizumi share common values and ideals with the US, he risked danger and was resolved to make sacrifices together with President Bush -- something unheard of among past prime ministers.

As the Ground Self-Defense Force (GSDF) prepared to end its mission in Iraq, the US Department of State released a statement that was full of praise for Japan: "We are grateful for the courage and sacrifice that Prime Minister and the Japanese people showed and their involvement in the effort to bring freedom to Iraq. Japan has played a powerful and positive role appropriate for a major power in the international society."

GSDF troops dispatched to Iraq were engaged in humanitarian and assistance activities in a safe area, but the death toll of US military personnel since the start of the Iraq war has topped 2,500, underscoring a clear difference in terms of the risk and cost they shoulder. However, if one reads between the lines of the comment, one will realize that Japan has fully met the US' expectations.

The Bush administration's policy toward Japan is based on the

so-called Armitage report: (1) making Japan-US relations more like US-Britain relations so that the two countries can share interests and act in unity; (2) respect Japan's independence by avoiding pressure tactics; and (3) constraining Japan's military power - the "cork-in-the-bottle" argument.

It cannot be ruled out that the Bush administration tends to take unilateral action, but it does not mean that it has been willful and arbitrary. Koizumi told Bush: "The US has the just cause of democratizing Iraq, and it also is the greatest power in the world. It will be in an excellent situation if it lines up international cooperation." Bush has tried to respond to Koizumi's advice.

TOKYO 00003809 004 OF 008

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 07/07/06

Part-2

INDEX:

(6) Study of structural reform: Japan implements many US-proposed deregulatory measures; US now takes cooperative stance, stops high-handed approach

The Japanese government proposed building a confrontational scheme that would line up Iraq, with its weapons of mass destruction, against the international community. The US accepted the idea. Although diplomatic efforts to secure international cooperation failed, the US moved ahead with various measures toward Iraq until immediately before the start of the war. Japan was involved in this process to a large extent.

The US paid attention not to what GSDF troops actually did in Iraq but to the process of both countries undertaking coordination right from the planning stage and moving forward in cooperation to settle various problems. This process has satisfied the US, and the dispatch of GSDF troops by Japan to Iraq was the ultimate goal of that process.

However, looking at the strengthened Japan-US relations, the international community sees Japan from a different angle. The US was the only country to praise Japan for its role in the Iraq war. The international community has no appreciation for that. This was plainly seen when Japan tried to seek a permanent seat on the UN Security Council (UNSC).

In a bid for a permanent UNSC seat, Japan characterized itself a new representative of Asia, following China, but it failed to garner support from Asian countries. To Asian countries, the way Japan acted in response to the Iraq war appeared as if it was blindly following the US. Given this aspect, a mood of resignation that voting for Japan is like giving two votes to the US dampened their willingness to back Japan.

Japan opted for the Japan-US alliance, when it was urged to choose between the alliance and international cooperation in the wake of the voting down of the resolution authorizing the use of armed force against Iraq. Its decision was correct. However, Japan has also lost something because of this decision. It is true that the timing of its bid for a permanent seat on the UNSC was wrong.

In a joint survey carried out by the University of Maryland and BBC of about 40,000 people throughout the world, Japan ranked first in 31 out of 33 surveyed countries a "country making a good influence on the world." It is now time for Japan to examine and deliberate on how to use the trust the in it that has taken root in the international community.

(8) Risky challenge-North Korea's missile firing (Part1): Last resort to deal with US

NIHON KEIZAI (Page 1) (Full)  
July 7, 2006

On July 6, one day after seven missiles landed in the Sea of Japan, North Korea admitted to its firing of those missiles. Moreover, Pyongyang proclaimed its challenge to continue missile testing. The United States is trying to contain North Korea through the United Nations. Meanwhile, North Korea is provoking the United States

again. Why is North Korea becoming so ambitious to promote its nuclear and missile development?

TOKYO 00003809 005 OF 008

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 07/07/06

Part-2

INDEX:

(6) Study of structural reform: Japan implements many US-proposed deregulatory measures; US now takes cooperative stance, stops high-handed approach

In North Korea, there is an economic organization called the Second Economic Committee (SEC). SEC is under the National Defense Commission, which is North Korea's supreme authority headed by Korean Workers Party (KWP) General Secretary Kim Jong Il. SEC oversees North Korea's production and distribution of all war supplies, and it also controls North Korea's foreign trade. SEC is said to have developed the seven missiles. This point implies the real aim of North Korea's nuclear and missile policies.

South Korea's intelligence body, the National Intelligence Service (NIS), noted in its parliamentary report yesterday that the Scud and Rodong missiles among those launched missiles may be aimed to secure foreign markets for exports. This also tallies with media reports on North Korea's substantial loss of its foreign currency assets due to financial sanctions imposed by the United States on North Korea. The NIS report says the Taepodong-2, which has a long range, is meant to be a tool for use in demonstrating against the United States. The Chosunilbo, a South Korean daily, says the export price of a Scud missile is approximately 4 million dollars or about 460 million yen.

According to the Korea National Statistical Office, North Korea's per-capita national income is 900 dollars or so, about a fifteenth of South Korea's. The Research Institute for National Unification, a think tank affiliated with the South Korean government, explains that North Korea's prioritized use of resources for its production of munitions in spite of its material shortages has deteriorated its economy.

North Korea, which has appropriated about a third of its national income for its military buildup, has many more troops than South Korea. However, most of the North Korean military's tanks and fighters were made in the former Soviet Union in the 1950s or 1960s, according to a North Korean military defector. He added, "They don't have enough fuel to train for actual combat operations, so the number of training days is 10 PERCENT to 20 PERCENT of the planned number of days." North Korea is eager to get the United States' guarantee for the Kim Jong Il regime's continued existence. To that end, North Korea has chosen to have weapons of mass destruction (WMD) instead of employing a large number of troops for its military. This option, in other words, would be inexpensive and effective for North Korea.

Of course, there is no doubt that Pyongyang is exploring reconciliation with the United States through a direct deal for fear that the US Bush administration might come out to overthrow the Kim Jong Il regime. North Korea shows off its WMD arsenal to stir up the international community and find a clue to talks with the United States. That is Pyongyang's brinkmanship.

Such a tactic has gone unchallenged. That is because the international regime for nuclear deterrence under the Nuclear Nonproliferation Treaty (NPT) has hit a snag. This is also why the international community is at a loss over how to cope with Iran's nuclear program.

Meanwhile, Chinese Vice Foreign Minister Wu Dawei, who chairs the

TOKYO 00003809 006 OF 008

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 07/07/06

Part-2

INDEX:

(6) Study of structural reform: Japan implements many US-proposed deregulatory measures; US now takes cooperative stance, stops

high-handed approach

six-party talks over the issue of North Korea's nuclear programs, will visit North Korea on July 10. In addition, US Assistant Secretary of State Hill, chief US delegate to the six-party talks,

SIPDIS

will visit China, South Korea, Japan, and Russia. Six-party member nations are now gearing up for diplomatic maneuvering.

The key is in the hands of China, Russia, and South Korea. Former Chinese President Jiang Zemin once likened China and North Korea to "teeth" and "lips." Russia is also deeply tied to North Korea. South Korea has pushed for President Roh Moo Hyon's sunshine policy toward North Korea. The missile launches caused the three countries to lose face. However, China and Russia still remain cautious about the idea of imposing sanctions on North Korea. Japan and the United States are teaming up to pressure North Korea, but their pressure cannot work well without the international community's unity.

Can they get together and send a strong message to North Korea? China has advocated holding an informal meeting for the six-party talks in order to resolve the situation. Will this Chinese initiative come true? North Korea is aiming to become a nuclear and missile power. How will the international community bar the door to that ambition? Its crisis management is facing a challenge.

(9) Iran's nuclear program, China's offensive make it difficult for Japan to secure energy resources

YOMIURI (Page 9) (Full)  
July 7, 2006

The Azadegan oil field, which is believed to be one of the largest crude oil deposits, is located in the southwestern part of Iran. The issue of Iran's nuclear program has endangered the 75 PERCENT of the oil field's interests that Japan's INPEX Corporation possesses.

The Iranians have made statements warning Japan. National Iran Oil Corporation said, "If the prospects for implementation of the project are not obtained, the (interest) contract will be automatically nullified." Iranian Petroleum Minister Vaziri-Hamaneh also stated, "Iran will develop the oil field on its own."

A Japanese official involved in the development said, "We don't understand Iran's real intention."

The Azadegan oil field was discovered in 1999. Japan and Iran agreed in February 2004 to jointly develop it. It was expected that the production of crude oil would start in 2006. However, the start of the oil production has been delayed due to the prolonged land mine-clearing operation. It is believed that as many as 1 million land mines were laid during the prolonged Iran-Iraq war.

The United States, which has pressed Iran to stop its nuclear program, has been calling on Japan to freeze the oil development plan. Many Japanese oil company officials have pointed out the possibility that China would obtain the right to develop the Azadegan oil field if the joint development accord is withdrawn. Not only INPEX Co. but also Japan's energy security policy is now being pushed into a corner.

TOKYO 00003809 007 OF 008

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 07/07/06

Part-2

INDEX:

(6) Study of structural reform: Japan implements many US-proposed deregulatory measures; US now takes cooperative stance, stops high-handed approach

Of Japan's crude oil imports, the percentage of independent development of oil resources by Japanese companies accounts for only 15 PERCENT. In a bid to strengthen Japan's energy security policy, the Ministry of Economy, Trade and Industry (METI) adopted in May a New National Energy Strategy. In order to increase the percentage of independent development of oil resources to 40 PERCENT in 2030,

METI has hammered out a comprehensive strategy of securing oil resources.

It will be difficult to attain the 40 PERCENT goal, however. Japan has another thorny issue with Russia. Japan aims to secure the right to develop an oil field in East Siberia. Russia will chair the upcoming G-8 summit to take place in St. Petersburg. Talks between Tokyo and Moscow have not moved forward as the two countries have different pipeline plans for transportation of crude oil.

In late 2004 Russia announced its plan to construct a Pacific pipeline connecting between East Siberia and the Pacific coast, the suburb of Nakhodka. Japan decided to cooperate with Russia, assuming that it would be able to import substantial amount of crude oil. However, Russia is now considering building a China-proposed pipeline as that country has expressed strong interests in oil development.

A senior Resources and Energy Agency official said: "If the China pipeline is constructed before the Pacific pipeline, most of the oil will go to China. We cannot take part in such a plan." Japan has insisted that priority should be given to the Pacific route before crude oil deposits are ascertained. Russia, however, aims to expand its benefits as much as possible, comparing the advantage of dealing with Japan or with China.

Informed sources are now paying attention to how far the situation will improve in the planned Japan-Russia summit on the sidelines of the G-8 summit.

Amid the tight crude oil demand and supply in the world, energy resources have become a strategic tool to be used for political maneuvering.

China has been conducting strong "resource diplomacy." In June Prime Minister Wen Jiabao traveled to six African countries. Japan has not had time to be complacent. Masahisa Naito, chairman and CEO of the Institute of Energy, Economics, Japan, pointed out:

"The adoption of the New National Energy Strategy is just one step. It is necessary to formulate a specific action plan and to set up a system to implement the action plan under the prime minister's leadership."

Japan National Oil Corporation was disbanded due to enormous deficits. Resources and Energy Agency Director General Kodaira said, "The government will thoroughly support the independent development of oil resources." It is uncertain whether Japan will be able to survive the global energy market where national interests crash. Japan is pressed to substantially review its strategy of securing energy, including the role-sharing of the government and private-sector.

TOKYO 00003809 008 OF 008

SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 07/07/06

Part-2

INDEX:

(6) Study of structural reform: Japan implements many US-proposed deregulatory measures; US now takes cooperative stance, stops high-handed approach

SCHIEFFER